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C O N F I D E N T I A L SECTION 01 OF 03 MINSK 000222

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TAGS: [PREL](#) [PINR](#) [ENRG](#) [RS](#) [BO](#)

SUBJECT: RUSSIA'S AGGRESSIVE NEW BELARUS POLICY - IS IT  
WORKING?

REF: A. 06 MINSK 1314

[B](#). MINSK 188

[C](#). MINSK 209

[D](#). 06 MINSK 1234

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Classified By: Classified by Ambassador Stewart for reason 1.4(d)

Summary

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[1](#)1. (C) Last December, Russia delivered a body blow to the Lukashenko regime by ending years of cheap energy and easy profits. Observers here generally agree that several objectives prompted Russia to significantly raise energy prices for Belarus. First, Russia is forcing Belarus through the new oil and gas supply deals to turn over control of its entire gas network. Second, Russia seeks to acquire ownership of other key GOB economic assets. Some analysts also contend that the Kremlin is using its considerable economic leverage to catalyze Lukashenko's political downfall, which is not in itself a bad thing; the more pressure on the Belarusian dictator, the better. Despite these and other pressures, Lukashenko and his cronies remain adamantly opposed to change. End summary.

What Does Russia Want From Belarus?

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[1](#)2. (C) Despite repeated statements from President Putin and other Russian officials that higher energy prices were introduced to push Belarus towards market economics and into market relations with Russia, a number of political and economic observers here say that much more is at stake for the Lukashenko regime. Local analysts remain convinced that at least three objectives seem to be driving Russian policy:

-- Greater Control Over Gas Network in Belarus: Economists agree with the assessment of economic analyst and journalist Sergey Zhbanov that Russia has grown weary of Lukashenko's unpredictable nature and wants to minimize the Belarusian president's influence on gas flows to the West. Zhbanov told Pol/Econ Chief on March 6 that Russia will not settle for joint ownership of Belarusian gas transit company Beltransgaz, which it is expected to attain in 2010, but will demand "50 percent plus one share" (ref A). He also reported that Russia is forcing Belarus to the negotiating table for eventual ownership of Belarusian gas distribution company Beltopgaz.

-- Expansion of Russian Capital: Vladimir Pavlenko, a political counselor at the Russian Embassy here, admitted that Russia stripped Belarus of much of its energy subsidies because it was tired of "giving something for nothing," but he asserted that Russia's decision is fundamentally a "blessing in disguise" for Belarus. Pavlenko recently told Pol/Econ Chief that Belarus had failed to implement necessary economic reforms because it was addicted to the drug of cheap energy: "Now that this narcotic has been taken away, Belarus can get down to real work." Local analysts, however, maintain that Russia is concerned with Belarus' economy only to the extent that it is open to Russian capital. Belarusian Union of Entrepreneurs leader Alexander Potupa and freelance journalist Roman Yakovlevskiy have learned from their GOB contacts that senior Belarusian officials are under tremendous pressure to sell off state assets exclusively to Russian companies (ref B). Belarusian MFA Counselor in the Americas Department Andrey Rzheusskiy agreed with the analysts' assessment, noting that his government is very much concerned with Russia's intensified effort to gain control of the Belarusian economy.

-- Removal of Lukashenko From Power: A few analysts firmly believe that Russia has also launched an attack on Lukashenko himself. Yakovlevskiy and political analyst Sergey Pankovskiy suggested that Putin intends to foment sufficient economic instability to force Lukashenko out of power. They contend that Lukashenko has become too much of a player in Russian domestic politics and the Kremlin aims to "take Lukashenko out of the equation" before Russia elects a new president in 2008. Yakovlevskiy added that Russia is actively searching out a viable alternative to Lukashenko in Belarus, citing Russian Ambassador Aleksandr Surikov's unusual trip to Mogilyov to meet with its governor Boris Batura and opposition communist leader Sergey Kalyakin's

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"sudden and unexplained" acquisition of large amounts of money as the most visible examples (ref C).

Impact of Fewer Subsidies Clear, But GOB Still Headstrong

13. (C) Clearly, higher oil and gas prices have hit the energy-dependent Belarusian economy hard. World Bank Country Director Craig Bell informed us that an IMF team that recently completed an unannounced, fact-finding trip to Belarus found a number of worrying signs that the Belarusian economy is heading towards economic trouble. Bell noted that he has yet to receive a full report from the IMF team, but the delegation focused its meetings with key GOB officials on decreased foreign currency reserves, rising inflation, declining competitiveness of key Belarusian exports, and other disturbing developments (septel). Yakovlevskiy added that utility prices have gone up more than what the regime predicted in January. Yakovlevskiy noted that his close friend, Deputy Economics Minister Andrey Tur, confirmed for him that the government is in bad financial shape. However, Yakovlevskiy and other analysts doubt that the Lukashenko regime will buckle under possible Russian demands in the immediate future.

Economic Pressure Is Bearable, For Now

14. (C) Economists generally agree that the economic conditions are severe and will likely get worse, but they are skeptical that Lukashenko will cede immediate control of key economic assets. Zhanov noted Belarus' plans to reduce the profitability of Russian gas giant Gazprom's shares in Beltransgaz. Belarus intends to eliminate the USD 18 per thousand cubic meters above the cost of imports from Russia that Beltransgaz charges Beltopgaz for gas purchases. The move would not only minimize Belarusian consumers' exposure to significantly higher gas prices, but it would also reduce

the profitability of Beltransgaz and hence the value of Gazprom's soon-to-be-acquired stake. Yakovlevskiy asserted that the regime is generating substantial (but unknown) revenue flows from sales of its military equipment and technology to Syria, Iran, and Venezuela (ref D). Russian diplomat Pavlenko speculated that his government will likely grant Belarus the requested USD 1.5 billion stabilization loan on the "most favorable terms" as a sign that Russia is not looking to induce economic instability in Belarus.

15. (C) However, Pavlenko noted that the regime has formed a commission to study and implement the "Chinese model" of economic development, where the government maintains a strong but not overwhelming presence in the economy. In such a scenario, Belarus would take some steps to attract foreign investment, but neither Pavlenko nor other economists believe Russia would be the only beneficiary of a more open Belarusian economy. Belarusian MFA official Rzhyskiy stressed that he is proud of his leader's (Lukashenko) unshakeable resolve to find other markets for Belarusian exports and other foreign investors for Belarus' economic development.

#### Key GOB Officials Remain Faithful To Lukashenko

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16. (C) Although Yakovlevskiy and Potupa are convinced that Russia is seeking to force Lukashenko from power, they are equally convinced that Lukashenko will be able to block such moves. They note that Lukashenko has secured for key GOB officials, including PM Sidorskiy, Security Council Secretary Viktor Sheyman, Parliament Speaker Vladimir Konoplyov, Presidential Administration (PA) Head Gennady Nevyglas, and Deputy PA Head Natalya Petkevich, a certain percentage of off-the-books revenues of most state-owned companies in Belarus. Potupa, who claims to have regular contact with Deputy PM Andrei Kobyakov and PA Head Nevyglas, stressed that these officials earn so much money from these deals that they will help Lukashenko thwart any possible Russian move to replace the dictator. Yakovlevskiy pointed out that Mogilyov Governor Batura has reportedly come under increasing scrutiny from Lukashenko since his meeting with Russian Ambassador Surikov. Analysts doubt that Lukashenko and his senior staff would allow any Belarusian official or opposition figure to forge close

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ties with Russian officials.

Comment

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17. (C) We agree with assessments that Russia is squeezing Lukashenko to control stable gas supplies to the West and to secure a greater foothold in the Belarusian economy. Despite the GOB's concerted efforts to assure Belarusians that the regime is capably responding to the new economic conditions, worrying economic trends have already begun to surface and will only become more evident in the months to come. However, we have yet to see any evidence that Russia is leveraging its economic weight to create political instability for Lukashenko. The key issue for the regime is the extent to which Lukashenko is willing to give up some control of the economy. If the dictator refuses to budge on any reform, he will eventually drive the economy into the ground, and perhaps his regime along with it.

18. (C) Ironically, the departure of Lukashenko and his erratic style of governance, coupled with true political and economic reforms, would offer excellent prospects for stable relations with Russia and broad opportunities for investment (Russians being the best-informed and best-placed if state-owned enterprises were privatized). While we would not want to see Moscow determining any succession of leadership, it must be admitted that Russian economic pressure on

Lukashenko will be a major factor in future political changes  
here.  
Stewart